

Message Text

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TREAS/OASIA: L WIDMAN
TREAS/OS: T LEDDY
STATE/EUR/WE: H COLE
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TO AMEMBASSY LISBON

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E.O. 11652:N/A

TAGS: EFIN, PO

SUBJECT:PORTUGAL'S MEDIUM TERM ECONOMIC PLAN AND IMF
ACCESS

REF: LISBON 5696

1. THE WITTEVEEN FACILITY IS INTENDED TO PROVIDE
SUPPLEMENTARY FINANCING IN CONJUNCTION WITH THE ORDINARY
RESOURCES OF THE IMF TO MEMBERS FACING SERIOUS PAYMENTS
IMBALANCES THAT ARE LARGE IN RELATION TO THEIR IMF QUOTAS.
A MEMBER WILL BE ELIGIBLE TO USE THE FACILITY IF THE IMF
IS SATISFIED:

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--THAT THE MEMBER'S BALANCE OF PAYMENTS FINANCING NEED IS
GREATER THAN THE AMOUNT REMAINING AVAILABLE TO IT UNDER THE
CREDIT TRANCHES;
--THAT THE MEMBER'S BALANCE OF PAYMENTS PROBLEM REQUIRES
A RELATIVELY LONG PERIOD OF ADJUSTMENT AND A PERIOD OF
REPAYMENT LONGER THAN THE PERIOD OF THREE TO FIVE YEARS
THAT APPLIES TO THE CREDIT TRANCHES; AND

--ON THE BASIS OF A DETAILED STATEMENT OF THE ECONOMIC AND FINANCIAL POLICIES THE MEMBER WILL FOLLOW AND THE MEASURES IT WILL APPLY UNDER A STAND-BY OR EXTENDED ARRANGEMENT, THAT THE MEMBER'S PROGRAM WILL BE ADEQUATE FOR THE SOLUTION OF ITS BALANCE OF PAYMENTS PROBLEM AND IS COMPATIBLE WITH THE IMF'S POLICIES ON THE USE OF ITS RESOURCES IN THE UPPER CREDIT TRANCHES OR UNDER THE EXTENDED FUND FACILITY (EFF)

UNDER THE EFF, THE IMF MAKES LONGER-TERM BALANCE OF PAYMENTS FINANCING AVAILABLE TO COUNTRIES PREPARED TO UNDERTAKE AND ADHERE TO A COMPREHENSIVE PROGRAM OF STRUCTURAL REFORM APPROVED BY THE IMF AND COVERING A PERIOD OF SEVERAL YEARS.

2. AGREEMENT WITH THE IMF ON AN EFF OR A STAND-BY ARRANGEMENT THAT SATISFIES UPPER CREDIT TRANCHE CONDITIONALITY IS A SINE QUA NON FOR PORTUGAL'S ACCESS TO THE WITTEVEEN FACILITY. THE PERIOD OF A STAND-BY ARRANGEMENT THAT IS THE BASIS FOR A DRAWING FROM THE FACILITY WILL NORMALLY EXCEED ONE YEAR. (CREDIT TRANCHE STAND-BYS IN THE PAST WERE USUALLY FOR ONE YEAR BUT IN SOME RECENT CASES HAVE BEEN FOR TWO YEARS. EFF ARRANGEMENTS ARE FOR THREE YEARS.)

3. COUNTRY ACCESS TO THE WITTEVEEN FACILITY IN CONJUNCTION WITH LIMITED OFFICIAL USE

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TION WITH REGULAR CREDIT TRANCHE DRAWINGS IS EQUIVALENT TO 12.5 PERCENT OF QUOTA FOR THE FIRST TRANCHE AND 30 PERCENT OF QUOTA FOR THE THREE UPPER CREDIT TRANCHES (EACH CREDIT TRANCHE IS EQUAL TO 25 PERCENT OF QUOTA), GIVING A NORMAL TOTAL ACCESS OF 102.5 PERCENT OF QUOTA FROM THE FACILITY. IF A MEMBER HAS USED ALL OR PART OF ITS CREDIT TRANCHES, PROVISION IS MADE FOR ACCESS TO THE WITTEVEEN FACILITY ON A RETROACTIVE BASIS. THUS IT WOULD BE POSSIBLE FOR PORTUGAL TO OBTAIN THAT PORTION OF THE WITTEVEEN FACILITY ACCESS (42.5 PERCENT OF QUOTA) CORRESPONDING TO THE FIRST AND SECOND CREDIT TRANCHE DRAWINGS THAT HAVE ALREADY OCCURRED. A THIRD CREDIT TRANCHE STAND-BY AGREEMENT COULD GIVE THE GOP ACCESS TO ITS THIRD CREDIT TRANCHE OF \$53.25 MILLION (25 PERCENT OF QUOTA) PLUS \$154.4 MILLION FROM THE WITTEVEEN FACILITY (72.5 PERCENT OF QUOTA). TOTAL FUND ACCESS UNDER THIS METHOD COULD THEREFORE TOTAL \$207.65 MILLION.

4. AN EFF PROGRAM, HOWEVER, CAN PROVIDE UP TO 140 PERCENT OF QUOTA, SUBJECT TO A LIMIT OF 165 PERCENT OF QUOTA ON COMBINED DRAWINGS FROM THE EFF AND THE CREDIT TRANCHES. SINCE PORTUGAL HAS DRAWN ITS FIRST AND SECOND TRANCHE

(50 PERCENT OF QUOTA), AN EFF WOULD BE LIMITED TO \$244.9 MILLION (115 PERCENT OF QUOTA). DRAWINGS FROM THE WITTEVEEN FACILITY IN CONJUNCTION WITH AN EFF ARE ON A ONE TO ONE BASIS. THEREFORE, WITTEVEEN DRAWINGS COULD TOTAL \$335.5 MILLION (157.5 PERCENT QUOTA, OF WHICH 115 PERCENT WOULD MATCH THE EFF DRAWING AND 42.5 PERCENT FOR THE

PREVIOUSLY DRAWN FIRST AND SECOND TRANCHE STAND-BY'S. TOTAL FUND ACCESS UNDER THIS METHOD COULD THEREFORE TOTAL \$580.4 MILLION.

5. IT HAS BEEN THE GENERAL JUDGEMENT OF ALL PARTIES FROM THE OUTSET THAT THE TYPE OF SEVERE ADJUSTMENTS REQUIRED FOR THE PORTUGUESE ECONOMY NECESSITATED A LONGER THAN ONE LIMITED OFFICIAL USE

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YEAR PERIOD. WE HAVE THEREFORE ASSUMED THAT AN EFF, WITH ITS THREE YEAR ADJUSTMENT PERIOD, LARGER IMF ACCESS AND LONGER REPAYMENT PERIOD WOULD BE MORE POLITICALLY ACCEPTABLE AND ECONOMICALLY FEASIBLE THAN A SHORTER TERM THIRD (AND POSSIBLY FOURTH) CREDIT TRANCHE STAND-BY. WHILE WE RECOGNIZE CONSTANCIO'S PROBABLE DESIRE TO MINIMIZE THE PERIOD OF IMF SURVEILLANCE, THE ANTICIPATED GOP CURRENT ACCOUNT DEFICITS FOR 1979-81 WILL REQUIRE SUBSTANTIAL FINANCING. THE NEGOTIATION OF AN EFF PROGRAM FOR THIS PERIOD BASED ON THE MEDIUM TERM ECONOMIC PLAN SHOULD PROVIDE BOTH EXPANDED IMF ACCESS AND THE STABILITY AND CONFIDENCE REQUIRED TO FACILITATE NECESSARY PRIVATE CAPITAL FLOWS.

6. UNDER SECTION 6.1 OF THE USAID BALANCE OF PAYMENTS LOAN AGREEMENT THE GOP AGREED TO PROVIDE AID THE SAME ECONOMIC AND FINANCIAL DATA THAT IT PROVIDES TO THE IMF IN ORDER TO ASSESS PORTUGAL'S PROGRESS UNDER THE IMF STAND-BY AGREEMENT. WE HAVE NOT YET SEEN THIS DATA. CHRISTOPHER

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ORIGIN EUR-12

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DRAFTEDBY EUR/WE:JBCUNNINGHAM

APPROVED BY:MLISSFELT

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FM SECSTATE WASHDC

TO AMEMBASSY MADRID

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FOLLOWING REPEAT STATE 204322 SENT ACTION LISBON SEP 12.

QUOTE: LIMITED OFFICIAL USE STATE 204322

E.O. 11652:N/A

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Decaption Date: 01 jan 1960
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Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
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